

Corinthia Finance p.l.c.

Annual Report

2007

Corinthia Finance p.l.c.

Annual Report

2007

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**Directors' and
Other Statutory Reports**

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Corinthia Finance p.l.c.

Directors' Report

For the Year Ended 31 December 2007

The directors present their report, together with the financial statements of Corinthia Finance p.l.c. (the "Company"), for the year ended 31 December 2007.

Board of directors

Mr Joseph Fenech (Chairman)

Mr Frank Xerri de Caro

Dr Joseph J Vella

Mr Anthony R Curmi (Appointed on 6 August 2007)

Mr Alfred Pisani (Resigned on 6 August 2007)

Principal activities

The principal activity of the Company is to finance the ownership, development, operation and financing of hotels, resorts and leisure facilities, forming part of the Corinthia Group of Companies, of which it is a member.

Review of business development and financial position

During the year under review, the Company achieved a profit amounting to Lm2,740. The Company's financial position at 31 December 2007 is set out in the financial statements.

Going concern

As required by Listing Rule 9.40.19 issued by the Listing Authority, upon due consideration of the Company's state of affairs, capital adequacy and solvency, the directors confirm the Company's ability to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, they continue to adopt the going concern basis as explained in note 2.2.1 to the financial statements.

Principal risks and uncertainties faced by the Company

The Company is essentially a special purpose vehicle set up for financing transactions of the Corinthia Group of Companies. It raised such finance in the main through the issue of bonds, which are quoted on the Malta Stock Exchange and guaranteed by Corinthia Palace Hotel Company Limited, to whom the proceeds from their issue have been advanced as explained in note 2.2.1 to the financial statements.

Corinthia Finance p.l.c.

Directors' Report

For the Year Ended 31 December 2007

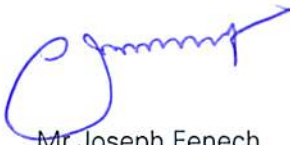
Dividends

During the year, the Company declared a dividend amounting to Lm25,000 (net) to the shareholders of the Company, by way of a set-off against a loan due by the Parent Company.

Reserves

The movement on reserves are as set out in the financial statements.

Approved by the Board of Directors on 29 April 2008 and signed on its behalf by:



Mr Joseph Fenech
Chairman



Dr Joseph J Vella
Director

Registered Office

22 Europa Centre
Floriana
Malta

Corinthia Finance p.l.c.

Statement by the Directors on the Financial Statements and Other Information included in the Annual Report

Pursuant to Listing Rule 9.40.5, we, the undersigned, declare that to the best of our knowledge, the financial statements included in the Annual Report, and prepared in accordance with the requirements of International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company, and that this report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

Signed on behalf of the Board of Directors on 29 April 2008 by:



Mr Joseph Fenech
Chairman



Dr Joseph J Vella
Director

Corinthia Finance p.l.c.

Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance

Listed companies are subject to The Code of Principles of Good Corporate Governance (the "Code"). The adoption of the Code is not mandatory, but listed companies are required under the Listing Rules issued by the Malta Financial Services Authority to include a Statement of Compliance with the Code in their Annual Report, accompanied by a report of the independent auditors thereon.

The Board of Directors (the "Board") resolved to adopt the Code. Other than where the particular circumstances of Corinthia Finance p.l.c. (the "Company") are deemed by the Board not to warrant the implementation of specific recommendations, the Company has, throughout the year to 31 December 2007, been in compliance with the Code.

The Board

The Board of Directors is responsible for the Company's affairs, in particular in giving direction to the Company, and being actively involved in the oversight of the systems of internal controls and financial reporting.

The Board is composed of both executive and non-executive directors, as follows:

Executive Directors

Mr Joseph Fenech

Non-Executive Directors

Mr Frank Xerri de Caro

Dr Joseph J Vella

Mr Anthony R. Curmi

Mr Joseph Fenech is the Executive Chairman of the Board and Mr Alfred Fabri acts as Secretary to the Board. Mr Alfred Pisani resigned as Director and Chairman on 6th August 2007, and was replaced as Director by Mr Anthony R. Curmi. The Board met twice in the course of 2007.

The Memorandum and Articles of Association set out extensively the procedures to be followed in the appointment of directors. Shareholders having voting rights and owning not less than 25 per cent of the share capital of the Company are entitled to appoint one director for every such 25 per cent holding. Appointed directors hold office for a period of one year, on the lapse of which period they are eligible for re-appointment.

The shareholders approve the remuneration paid to the directors at the annual general meeting. The Board has resolved to disclose directors' fees in aggregate rather than as separate figures for each director as required by the Code. The Directors received Lm6,254 in aggregate for services rendered during 2007.

On joining the Board and regularly thereafter, directors are informed and reminded of their obligations on dealing in securities of the company within the parameters of law and the Listing Rules.

Corinthia Finance p.l.c.

Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance

Board Committees

The Audit Committee

The terms of reference of the Audit Committee have been formally set out in a separate Charter. Mr Frank Xerri de Caro, a non-executive director, acts as Chairman and Mr Joseph Fenech and Mr Anthony R. Curmi as members, whilst Mr Alfred Fabri performs the duties of Secretary to the Committee.

The Committee's role principally involves the review of the financial reporting process and internal controls. Additionally, it is responsible for monitoring the performance of the entities borrowing funds from the Company, and also carries out the oversight of related party transactions to ensure that these are carried out on an arm's length basis.

The Committee met three times during the year ended 31 December 2007. The Director of Internal Audit is asked to attend the meetings.

Nomination Committee and Remuneration Committee

The Board considers that the size and operation of the Company do not warrant the setting up of an Nomination and Remuneration Committee, as recommended by the Code.

Approved by the Board of Directors on 29 April 2008 and signed on its behalf by:



Mr Frank Xerri de Caro
Director and Chairman of Audit Committee



Dr Joseph J Vella
Director

Corinthia Finance p.l.c.

Statement Register Information

Pursuant to Listing Rule 9.40.11

Directors' interest in the shareholding of the Company

Mr Alfred Pisani has a beneficial interest in the Company of 167 ordinary shares through the shareholding of A & A Pisani & Company Limited in Corinthia Palace Hotel Company Limited.

There have been no changes in the shareholding of the Company since balance sheet date.

Pursuant to Listing Rule 9.40.12

Shareholders holding 5% or more of the share capital at 31 December 2007:

	Number of shares	Percentage holding (%)
Corinthia Palace Hotel Company Limited	99,999	99.99

Number of shareholders

Range	Total shareholders at 31 December 2007
1 to 1000	1
1001 to 5000	-
5001 and over	1
	<hr/>
	2
	===

Shareholders having voting rights and owning not less than 25 per cent of the share capital of the Company are entitled to appoint one director for every such 25 per cent holding.

There have been no changes in the above mentioned holdings between the year end and 21 April 2008.

Corinthia Finance p.l.c.

Other Disclosures in terms of the Listing Rules

Pursuant to Listing Rule 8.14

Share Capital Structure

The Company's issued share capital is one hundred thousand (100,000) ordinary shares of Lm1 each. All of the issued shares of the Company form part of one class of ordinary shares in the Company. All shares in the Company have the same rights and entitlements and rank *pari passu* between themselves. The following are highlights of the rights attaching to the shares:

Dividends:	The shares carry the right to participate in any distribution of dividend declared by the Company;
Voting Rights:	Each share shall be entitled to one vote at meetings of shareholders;
Pre-emption Rights:	Subject to the limitations contained in the memorandum and articles of association, shareholders in the Company shall be entitled, in accordance with the provisions of the Company's memorandum and articles of association, to be offered any new shares to be issued by the Company a right to subscribe for such shares in proportion to their then current shareholding, before such shares are offered to the public or to any person not being a shareholder.
Capital Distributions:	The shares carry the right for the holders thereof to participate in any distribution of capital made, whether on a winding up or otherwise;
Transferability:	The shares are freely transferable in accordance with the memorandum and articles of association and any rules as may be, applicable from time to time;
Other:	The shares are not redeemable.

Holdings in Excess of 5% of the Share Capital

On the basis of the information available to the Company as at the 31 December 2007, Corinthia Palace Hotel Company Limited holds 99,999 shares in the Company, equivalent to 99.999% of its total issued share capital. As far as the Company is aware, no persons hold an indirect shareholding in excess of 5% of its total issued share capital.

Appointment and Replacement of Directors

In terms of the memorandum and articles of association of the Company, the Directors of the Company shall be appointed as follows:

- (a) The appointment of Directors to the Board is reserved to shareholders or a number of members who individually or between them have a holding of 25% of the total issued share capital of the Company having voting rights;

Corinthia Finance p.l.c.

Other Disclosures in terms of the Listing Rules

Pursuant to Listing Rule 8.14 (continued)

Appointment and Replacement of Directors (continued)

- (b) A shareholder or a number of members who individually or between them hold 25% of the issued share capital of the Company are entitled to appoint one Director for every such 25% shareholding held. Any shareholder who does not appoint a Director or Directors as described above, will participate in the annual election of Directors at the Annual General Meeting of the Company. Shareholders who are entitled to appoint Directors pursuant to their 25% holding shall be entitled to participate in the annual election of Directors, provided that in such an election they only use such shares, not otherwise used to appoint a Director as described above;
- (c) All Directors may be removed from their post by the shareholder appointing them, or by an ordinary resolution of the shareholders in general meeting. Unless appointed for a longer or shorter period or unless they resign or are removed, the Directors shall, unless otherwise specified in the letter of their appointment hold office for a period of one year. Directors are eligible for re-appointment upon the lapse of the period stated in their letter of appointment.

Further details on the appointment of Directors may be found in the memorandum and articles of association of the Company.

Amendments to the Memorandum and Articles of Association

In terms of the Companies Act, Cap. 386 of the Laws of Malta, the Company may by extraordinary resolution at a general meeting alter or add to its memorandum or articles of association. An extraordinary resolution is one where:

- (a) it has been taken at a general meeting of which notice specifying the intention to propose the text of the resolution as an extraordinary resolution and the principle purpose thereof has been duly given;
- (b) it has been passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate:
 - (i) not less than seventy five per cent (75%) in nominal value of the shares represented and entitled to vote at the general meeting; and
 - (ii) at least fifty one per cent (51%) in nominal value of the issued share capital entitled to vote at the meeting.

Provided that, if one of the aforesaid majorities is obtained but not both, another meeting shall be convened within thirty (30) days in accordance with the provisions for the calling of meetings to take a fresh vote on the proposed resolution. At the second meeting the resolution may be passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate not less than seventy five per cent (75%) in nominal value of the shares issued by the Company represented and entitled to vote at the meeting. However, if more than half in nominal value of all the shares issued by the Company having the right to vote at the meeting is represented at that meeting, a simple majority in nominal value of such shares so represented shall suffice.

Corinthia Finance p.l.c.

Other Disclosures in terms of the Listing Rules

Pursuant to Listing Rule 8.14 (continued)

Board Member Powers

The Directors are vested with the management of the Company, and their powers of management and administration emanate directly from the memorandum and articles of association and the law. The Directors are empowered to act on behalf of the Company and in this respect have the authority to enter into contracts and sue and be sued in representation of the Company. In terms of the memorandum and articles of association they may do all such things that are not by the memorandum and articles of association reserved for the Company in general meeting.

Pursuant to Listing Rule 9.40.16

Contracts of significance

Loan agreements with Corinthia Palace Hotel Company Limited

The Company has advanced amounts borrowed by way of bonds listed on the Malta Stock Exchange to its Parent Company, Corinthia Palace Hotel Company Limited. The terms of the relevant agreement is set out in the Company's financial statements.

Pursuant to Listing Rule 9.40.20

Company Secretary and Registered Office

Mr Alfred Fabri
22 Europa Centre
Floriana
Malta

Telephone (+356) 21 233 141

Signed on behalf of the Board of Directors on 29 April 2008 by:


Mr Joseph Fenech
Chairman


Dr Joseph J Vella
Director



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Independent Auditors' Report

To the Members of Corinthia Finance p.l.c.

Report on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance

Listing Rules 8.37 and 8.38 issued by the Listing Authority, require the directors of Corinthia Finance p.l.c. (the "Company") to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance (the "Statement of Compliance"), and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as auditors of the Company, is laid down by Listing Rule 8.39, which requires us to include a report on this Statement of Compliance.

We read the Statement of Compliance and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this statement is consistent with other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance covers all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures, nor on the ability of the Company to continue in operational existence.

In our opinion, the Statement of Compliance set out on pages 4 and 5 provides the disclosures required by Listing Rules 8.37 and 8.38 issued by the Listing Authority.

Alfred V Cremona (Partner) for and on behalf of

KPMG
Registered Auditors

29 April 2008

Corinthia Finance p.l.c.

Financial Statements

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Corinthia Finance p.l.c.

Directors' Responsibility for the Financial Statements

The Companies Act, 1995 (the "Act") requires the directors of Corinthia Finance p.l.c. (the "Company") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company as at the end of the financial period and of the profit or loss of the Company for that period in accordance with the requirements of International Financial Reporting Standards.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors, through oversight of management, are responsible to ensure that the Company establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Company's business. This responsibility includes establishing and maintaining controls pertaining to the Company's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:



Mr Joseph Fenech
Chairman



Dr Joseph J Vella
Director

Corinthia Finance p.l.c.

Balance Sheet

As at 31 December 2007

		2007	2006
	Note	Lm	Lm
ASSETS			
Loans receivable	8	20,556,205	20,679,605
Total non-current assets		20,556,205	20,679,605
Trade and other receivables	9	676,235	697,924
Taxation recoverable		4,981	2,639
Cash at bank		28,154	6,275
Total current assets		709,370	706,838
Total assets		21,265,575	21,386,443
EQUITY			
Share capital		100,000	100,000
Retained earnings		1,352	23,612
Total equity	10	101,352	123,612
LIABILITIES			
Bonds in issue	11	20,665,541	20,764,302
Total non-current liabilities		20,665,541	20,764,302
Trade and other payables	12	498,682	498,529
Total current liabilities		498,682	498,529
Total liabilities		21,164,223	21,262,831
Total equity and liabilities		21,265,575	21,386,443

The notes on pages 6 to 17 are an integral part of these financial statements.

The financial statements on pages 2 to 17 were approved by the Board of Directors on 29 April 2008 and signed on its behalf by:


Mr Joseph Fenech
Chairman


Dr Joseph J Vella
Director

Corinthia Finance p.l.c.

Statement of Changes in Equity

For the Year Ended 31 December 2007

	Share capital	Retained earnings	Total
	Lm	Lm	Lm
Balance at 1 January 2006	100,000	69,871	169,871
	<hr/>	<hr/>	<hr/>
Profit for the year	-	3,741	3,741
	<hr/>	<hr/>	<hr/>
Total recognised income and expense	-	3,741	3,741
	<hr/>	<hr/>	<hr/>
Dividends	-	(50,000)	(50,000)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2006	100,000	23,612	123,612
	=====	=====	=====
Balance at 1 January 2007	100,000	23,612	123,612
	<hr/>	<hr/>	<hr/>
Profit for the year	-	2,740	2,740
	<hr/>	<hr/>	<hr/>
Total recognised income and expense	-	2,740	2,740
	<hr/>	<hr/>	<hr/>
Dividends	-	(25,000)	(25,000)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2007	100,000	1,352	101,352
	=====	=====	=====

The notes on pages 6 to 17 are an integral part of these financial statements.

Corinthia Finance p.l.c.

Income Statement

For the Year Ended 31 December 2007

		2007	2006
	Note	Lm	Lm
Interest receivable		1,424,205	1,456,107
Interest payable and similar charges		(1,407,491)	(1,435,007)
Net interest earned	5	16,714	21,100
Administrative expenses	6	(12,498)	(15,339)
Unrealised exchange loss		-	(5)
Profit before income tax		4,216	5,756
Income tax expense	7	(1,476)	(2,015)
Profit for the year		2,740	3,741
		=====	=====

The notes on pages 6 to 17 are an integral part of these financial statements.

Corinthia Finance p.l.c.

Cash Flow Statement

For the Year Ended 31 December 2007

	2007	2006
	Lm	Lm
Cash flows from operating activities		
Profit for the year	2,740	3,741
Adjustments for:		
Amortisation of discount on issue of bonds	24,639	23,074
Income tax expense	1,476	2,015
	<u>28,855</u>	<u>28,830</u>
Change in trade and other receivables	(28,311)	(11,567)
Change in trade and other payables	153	(22,243)
	<u>697</u>	<u>(4,980)</u>
Cash generated from (absorbed by) operating activities	697	(4,980)
Income tax paid	(3,818)	(1,995)
	<u>(3,121)</u>	<u>(6,975)</u>
Net cash used in operating activities	(3,121)	(6,975)
Cash flows from investing activities		
Repayments of loans advanced to Parent Company	148,400	1,566,200
	<u>148,400</u>	<u>1,566,200</u>
Net cash from investing activities	148,400	1,566,200
Cash flows from financing activities		
Redemption of bonds	(123,400)	(1,566,200)
	<u>(123,400)</u>	<u>(1,566,200)</u>
Net cash used in financing activities	(123,400)	(1,566,200)
Net increase (decrease) in cash at bank	21,879	(6,975)
Cash at bank at 1 January	6,275	13,250
	<u>28,154</u>	<u>6,275</u>
Cash at bank at 31 December	28,154	6,275
	=====	=====
Non-cash transaction		
Dividends set-off against loan due by Parent Company	25,000	50,000
	=====	=====

The notes on pages 6 to 17 are an integral part of these financial statements.

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

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Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

1 Reporting entity

Corinthia Finance p.l.c. (the "Company") is a limited liability company domiciled and incorporated in Malta.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared and presented in accordance with the provisions of the Companies Act, 1995 enacted in Malta (the "Act"), which requires adherence to International Financial Reporting Standards (IFRSs).

The Act specifies that in the event that any one of its provisions is in conflict or not compatible with IFRSs or its application is incompatible with the obligation for the financial statements to give a true and fair view, that provision shall be departed from in order to give a true and fair view.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis and on the going concern basis.

2.2.1 Going concern basis

The Company has advanced amounts borrowed by way of bonds listed on the Malta Stock Exchange to its Parent Company, Corinthia Palace Hotel Company Limited ("CPHCL"), which at 31 December 2007, totalled Lm20,556,205, following a repayment to the Company of an amount of Lm148,400 and a set-off amounting to Lm25,000, by way of a dividend, during the year under review. These funds are employed by the Group, of which CPHCL is the parent and guarantor for the Company's financial obligations towards its bondholders.

In considering the going concern basis underlying the preparation of these financial statements, the directors have assessed the financial position and operational performance of the Group of which the Company is a member, to enable them obtain comfort that CPHCL will be in a position to effect repayment of the amounts it owes the Company. The conclusions of this assessment are summarised as follows:

- During 2007, the financial position of CPHCL continued to strengthen with the transfer of the Corinthia Towers Hotel and the Corinthia Bab Africa Hotel and Commercial Centre into IHI, in exchange for 192 million shares in IHI of €1 each and €15 million in cash, with a resultant uplift in the value of its investments and an improved liquidity situation.

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

2 Basis of preparation (continued)

2.2 Basis of measurement (continued)

2.2.1 *Going concern basis (continued)*

- The Group continued with its policy of embarking on new projects only after full financing is in place.
- In consequence of the continued maturity of most of the Group's hotel properties and the benefits accruing from the alliance with the Wyndham Group through the latter's Reservation System, the Group's operations continued to improve their performance.
- The Group is actively seeking to dispose of its non-core properties, thereby improving its liquidity and freeing funds for alternative investments.
- On the strength of the capital market's view of the Company's financial instruments quoted on the Malta Stock Exchange, the Company intends to roll-over its bonds in issue when they fall due for repayment.
- In view of the above factors and the fact that the Group has continued to reduce its corporate debt, in 2007, the Company and CPHCL amended the loan agreements currently in force, by virtue of which, CPHCL undertook to reserve by way of Sinking Funds a minimum of 50% of the bonds in issue over the second half of their term. CPHCL has honoured the agreed contribution to such Sinking Funds up to balance sheet date and has also made its contributions due to date for 2008.

Based on the foregoing, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments should the above strategies not materialise.

2.3 Functional and presentation currency

These financial statements are presented in Maltese Liri (Lm), which is the Company's functional currency.

On 1 January 2008, Malta adopted the Euro (€) as its currency, at which date the Maltese Lira was converted at the irrevocable fixed conversion rate of Lm0.4293 to €1.

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

2 Basis of preparation (continued)

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult to reach, subjective or complex to a degree which would warrant their description as significant and critical in terms of the requirements of IAS 1 (revised).

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Financial instruments

Non-derivative financial instruments comprise loans receivable, trade and other receivables, cash held on deposit, bonds in issue, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

Accounting for finance income and expense is discussed in note 3.3.

3.1.1 *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.2 Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

3.3 Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings and related charges. All borrowing costs are recognised in profit or loss using the effective interest method.

3.4 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

3 Significant accounting policies (continued)

3.5 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, none of which are expected to have any application or impact on the Company's financial statements in the period of initial application.

4 Financial risk management

4.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

4.2 Credit and liquidity risk

4.2.1 Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the loans advanced to its Parent Company, and accrued interest charges thereon.

The directors believe that the credit risk on such loans and receivables is limited when considering the state of the financial affairs of its Parent Company (see note 2.2.1).

4.2.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

4 Financial risk management (continued)

4.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

4.3.1 Currency risk

The Company holds certain financial assets and is the issuer of certain financial liabilities of equivalent amounts, all of which are denominated in Euro.

4.3.2 Interest rate risk

The Company adopts a policy of ensuring that its exposure to changes in interest rates on interest-bearing borrowings is limited by entering into financial arrangements subject to fixed rates of interest.

4.4 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the level of dividends to ordinary shareholders. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

5 Net interest earned

	2007	2006
	Lm	Lm
Interest receivable on loans advanced to Parent Company	1,424,205	1,456,107
Interest payable on bonds in issue	1,382,852	1,411,933
Amortisation of discount on issue of bonds	24,639	23,074
	1,407,491	1,435,007
Net interest earned	16,714	21,100
	=====	=====

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

6 Administrative expenses

Administrative expenses include auditors' remuneration amounting to Lm2,700 and directors remuneration amounting to Lm6,254 (2006: Lm9,750).

7 Income tax expense

The income tax expense for the year is calculated on the Company's taxable income at the rate of 35% applicable in Malta, the Company's country of incorporation. No differences arise between the accounting profit and taxable income.

8 Loans receivable

8.1

Repayment terms

	Denominated in	Interest rate	Repayable by	2007	2006
		%		Lm	Lm
I	Lm	6.80	15 October 2009	8,313,700	8,433,800
II	EUR	7.10	15 March 2010	5,945,805	5,945,805
III	Lm	6.85	15 March 2012	6,296,700	6,300,000
				20,556,205	20,679,605
				=====	=====

These loans rank *pari passu*, without any priority or preference, with all other present and future unsecured and unsubordinated obligations of the Parent Company to which they have been advanced.

8.2 During 2007, an amount of Lm123,400 was repaid by CPHCL on account of loans I and III to enable the Company to purchase and redeem 120,100 6.7% Lm100 bonds maturing on 30 October 2009 and 3,300 6.75% Lm100 bonds maturing on 8 April 2012 (note 11).

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

9 Trade and other receivables

9.1		2007	2006
	Note	Lm	Lm
Loan to Parent Company		-	50,000
Accrued interest on advances to Parent Company	9.2	676,235	647,924
		<u>676,235</u>	<u>697,924</u>
		=====	=====

9.2 These charges are payable as to Lm96,481 (2006: Lm65,930) on demand, as to Lm460,380 (2006: Lm460,723) paid in March 2008 and Lm119,374 (2006: Lm121,271) payable in October 2008.

10 Equity

10.1 Share capital

	Ordinary shares of Lm1 each	
	2007	2006
	No.	No.
On issue at 1 January	100,000	100,000
On issue at 31 December - fully paid up	<u>100,000</u>	<u>100,000</u>
	=====	=====

At 31 December 2007, the authorised share capital comprised of 1,000,000 ordinary shares of Lm1 each (2006: 1,000,000).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All shares rank equally with regard to the Company's residual assets.

10.2 Dividends

During the year dividends amounting to Lm0.25 per share (2006: Lm0.50 per share) were declared and set off against a loan advanced to the Parent Company.

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

11 Bonds in issue

Bond		Repayment terms		2007	2006
Denominated in		Interest rate	Repayable by	Lm	Lm
		%			
I	Lm	6.70	30 October 2009	8,313,700	8,433,800
II	EUR	6.50	8 April 2010	6,065,241	6,040,602
III	Lm	6.75	8 April 2012	6,286,600	6,289,900
				20,665,541	20,764,302
				=====	=====

The payment of these bonds and interest thereon are guaranteed by the Parent Company, which has bound itself jointly and severally liable with the Company.

12 Payables

	2007	2006
	Lm	Lm
Trade payables	1,710	1,215
Other payables	8,832	4,971
Accrued interest charges on bonds in issue	484,770	486,173
Other accrued charges	3,370	6,170
	498,682	498,529
	=====	=====

13 Financial instruments

13.1 Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		2007	2006
	Note	Lm	Lm
Loans receivable	8	20,556,205	20,679,605
Other receivables	9	676,235	697,924
		21,232,440	21,377,529
		=====	=====

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

13 Financial instruments (continued)

13.2 Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
	Lm	Lm	Lm	Lm	Lm	Lm	Lm
31 December 2007							
Bonds in issue:							
I	8,313,700	9,331,781	-	461,063	8,870,718	-	-
II	6,065,241	7,031,619	107,319	-	398,300	6,526,000	-
III	6,286,600	8,098,320	114,337	212,173	424,346	7,347,464	-
Accrued interest	484,770	484,770	388,815	95,955	-	-	-
Other payables	13,912	13,912	13,912	-	-	-	-
	<u>21,164,223</u>	<u>24,960,402</u>	<u>624,383</u>	<u>769,191</u>	<u>9,693,364</u>	<u>13,873,464</u>	<u>-</u>
	=====	=====	=====	=====	=====	=====	=====
31 December 2006							
Bonds in issue:							
I	8,433,800	10,031,690	-	467,760	565,065	8,998,865	-
II	6,040,602	7,429,919	107,319	-	398,300	6,924,300	-
III	6,289,900	8,527,138	114,397	212,284	424,568	1,273,705	6,502,184
Accrued interest	486,173	486,173	388,868	97,305	-	-	-
Other payables	12,356	12,356	12,356	-	-	-	-
	<u>21,262,831</u>	<u>26,487,276</u>	<u>622,940</u>	<u>777,349</u>	<u>1,387,933</u>	<u>17,196,870</u>	<u>6,502,184</u>
	=====	=====	=====	=====	=====	=====	=====

Corinthia Finance p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2007

13 Financial instruments (continued)

13.3 Fair values

At balance sheet date, the carrying amount of financial assets and financial liabilities approximated their fair values.

14 Related parties

14.1 Parent and ultimate controlling party

The Company is a fully-owned subsidiary of Corinthia Palace Hotel Company Limited, the registered office of which is situated at 22, Europa Centre, Floriana, Malta. CPHCL has a related party relationship with companies forming part of the Group of which CPHCL is the parent and with its directors and executive officers. CPHCL is considered to be the ultimate controlling party of the Company.

Consolidated financial statements are prepared by Corinthia Palace Hotel Company Limited.

14.2 Transactions with key management personnel

The previous Chairman of the Company has a beneficial interest in the Company of 167 ordinary shares, through the shareholding of A & A Pisani Limited in CPHCL.

Other than the remuneration paid to the directors of the Company (see note 6), there were no other transactions with key management personnel.

14.3 Related party transactions and balances

Information regarding balances and transactions with related parties is set out in the cash flow statement and notes 8 and 9 to these financial statements.



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Independent Auditors' Report

To the Members of Corinthia Finance p.l.c.

Report on the Financial Statements

We have audited the financial statements of Corinthia Finance p.l.c. (the "Company") as set out on pages 2 to 17, which comprise the balance sheet as at 31 December 2007 and the statement of changes in equity, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

As described on page 1, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Companies Act 1995 enacted in Malta (the "Act") and may not be appropriate for any other purpose.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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Independent Auditors' Report (continued)

To the Members of Corinthia Finance p.l.c.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion above, we draw attention to note 2.2.1 to the financial statements explaining the going concern basis underlying the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

We also report to you our opinion as to whether the financial statements are properly prepared in accordance with the Act. In addition, we report to you if, in our opinion:

- the information given in the Directors' Report is not consistent with the financial statements; or
- the Company has not kept proper accounting records; or
- the Company's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit, or if the information specified by Article 31(O) of the Third Schedule to the Act regarding any directors' emoluments is not disclosed, in which case we are required to include a statement in our report giving the required particulars.

We read the Directors' Report and Other Statutory Reports and consider the implications for our report if we become aware of any material misstatements of fact within it.

Opinion

In our opinion, the financial statements have been properly prepared in accordance with the Companies Act 1995 enacted in Malta.



Alfred V Cremona (Partner) for and on behalf of

KPMG
Registered Auditors

29 April 2008